

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Consider the
Annual Revenue Requirement Determination of
the California Department of Water Resources
and related issues.

Rulemaking 11-03-006
(Filed March 10, 2011)

DECISION GRANTING SPECIAL RELIEF

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DECISION GRANTING SPECIAL RELIEF

1. Summary

By this decision, the Commission: 1) adopts the *Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power Charge Revenue Requirements* (Agreement) between San Diego Gas & Electric Company (SDG&E) and the California Department of Water Resources (see Attachment A), as clarified by the *Joint Reply of San Diego Gas & Electric Company and Alliance for Retail Energy Markets* (Reply) (see Attachment B); and 2) grants SDG&E authority to implement those procedures set out in the Agreement, as clarified by the Reply. The Agreement, as clarified by the Reply, does not change California Department of Water Resources' authorized 2013 Revenue Requirement Determination, but instead provides a methodology by which the net negative power charge revenue requirement¹ is treated by SDG&E.

2. Background

The DWR submitted its 2013 revenue requirement determination to the Commission on August 2, 2012. This submission consisted of the *Determination of*

¹ The net negative power charges represent the difference between SDG&E's forecasted share of allocable California Department of Water Resources (DWR) power costs and forecasted operating reserve amounts returned to SDG&E by DWR, where the amounts returned exceed power costs during a given year. This is a result of the expiration of an increasing number of DWR's power agreements. The expiration of these power agreements in turn leads to a gradual decline in the total annual revenue requirements associated with DWR's contract portfolio, contractual liabilities, and associated costs. DWR is therefore able to reduce its cash operating reserves necessary for the administration of its power contracts, and return ratable amounts of surplus reserves to the utilities and their customers. The convergence of declining contract costs and the return of surplus operating reserves has reached the point where the charges SDG&E reflects on its customer bills representing SDG&E's share of allocable DWR power costs and returned reserves are estimated to be a net negative amount.

Revenue Requirements for the Period January 1, 2013 Through December 31, 2013, the *Notice of Determination of Revenue Requirements*, and a memorandum from John Pacheco of DWR to President Michael R. Peevey of the Commission, all provided via electronic mail on August 2, 2012. The memorandum notified the Commission of DWR's 2013 revenue requirement determination, and requested "that the Commission calculate, revise and impose Bond Charges in accordance with Article V of the Rate Agreement..." and "that the Commission calculate, revise and impose Power Charges in accordance with Article VI of the Rate Agreement...."²

On October 4, 2012, DWR initiated its revision of the 2013 revenue requirement by issuing a *Proposed Revision to the Determination of Revenue Requirements*. On October 15, 2012, DWR submitted its final revised 2013 revenue requirement determination to the Commission. This submission consisted of the October 15, 2012 *Proposed Revision to the Determination of Revenue Requirement for the Period January 1, 2013 Through December 31, 2013*, the *Notice of Proposed Revision of Determination of a Revenue Requirement*, and DWR's October 15, 2012 memorandum to President Michael R. Peevey titled *Notification of Revised Revenue Requirement Determination for 2013*. DWR stated in its final revised 2013 determination that it may propose further revisions to its 2013 revenue requirement, given the potential for significant or material changes in the California energy market. If such an event occurs, DWR will inform the Commission of such material changes and revise its 2013 revenue requirement accordingly.

² The terms "Bond Charge" and "Power Charges" are defined in Article I of the Rate Agreement that was adopted in Decision (D.) 02-02-051.

On October 16, 2012, San Diego Gas & Electric Company (SDG&E) filed a *Motion of San Diego Gas & Electric Company (U-902-E) for the Receipt of Additional Evidence and the Granting of Special Relief* (Motion) in which it requested that additional evidence be received into the record and that the special relief requested be granted. The additional evidence (that was received into the record in D.12-11-040) consists of an *Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power Charge Revenue Requirements* (Agreement) between SDG&E and DWR. SDG&E also requests authority to implement the procedures applicable to the return of the net negative Power Charge revenue requirements as provided under the terms of the Agreement.

On October 31, 2012, the Alliance for Retail Energy Markets (AReM) responded to SDG&E's Motion (Response). AReM is concerned that, given the language of the Agreement, the negative revenue requirement will be allocated to bundled customers only, and may not be allocated to Direct Access (DA) customers as well.

On November 6, 2012, SDG&E and AReM filed their *Joint Reply of San Diego Gas & Electric Company and Alliance for Retail Energy Markets* (Reply), regarding SDG&E's Motion. On that same date, the assigned Administrative Law Judge (ALJ) issued an electronic-mail (e-mail) ruling, allowing parties to file responses to this Reply by November 28, 2012. No responses were filed.

3. San Diego Gas & Electric Company Request

SDG&E and DWR reached an agreement regarding a methodology for allocating the negative revenue requirement to SDG&E customers that is similar

to those adopted for use by Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE).³

Under the terms of the Agreement, SDG&E would continue to administer those DWR power contracts allocated to it pursuant to the Commission's prior orders; and remit to DWR on a daily basis all collected DWR revenues associated with the power contracts previously allocated to SDG&E. SDG&E would also establish a "Customer Return Credit Rate" by dividing the amount of the forecasted annual Customer Return Credit that DWR would return to SDG&E by the forecasted bundled service sales (in kilowatt hours) authorized by the Commission for the applicable calendar year, commencing with the 2013 calendar year.⁴

SDG&E would include a statement on its customer bills describing the nature of the credit. SDG&E would track the difference between the credits received from DWR and those returned to customers, based on forecasted and actual sales. This difference, whether an under- or over-collection, would be transferred to SDG&E's Energy Resource Recovery Account balancing account and reflected in SDG&E's commodity rates, until such time as SDG&E is no longer responsible for charges related to DWR's power contracts and DWR no longer returns credit amounts to SDG&E.

SDG&E submits the terms of the Agreement are reasonable and should be approved by the Commission. SDG&E also assures the timely and full return to SDG&E's customers of the credits received by SDG&E from DWR in a manner

³ See D.10-12-006, D.11-12-005, and D.12-11-040.

⁴ The Customer Return Credit Rate would be multiplied by a customer's usage during a billing month to arrive at the credit provided to the customer.

consistent with the Commission's prior orders and the servicing agreements executed by DWR.

3.1. Resolution of Issues Raised by AReM

In their joint Reply, SDG&E and AReM agree that the record should reflect that, subject to the clarifications provided in their Reply, all matters raised by AReM in its Response have been addressed to AReM's satisfaction and that SDG&E's Motion should be granted subject to the clarifications provided in their Reply.

As noted in the Motion, SDG&E intends to make related changes to the affected rates and tariff in order to address the allocation of any negative revenue requirement, to the full range of SDG&E's customers, regarding the relevant credits received from DWR. Specifically, the Motion indicated that those changes include adjustments to SDG&E's tariff Schedule DA-CRS, which is applicable to DA customers in the SDG&E service territory. SDG&E and AReM agree that the record should be clarified as to the manner in which DA customers in SDG&E's service territory would receive their allocable share and benefits of the credits SDG&E receives from DWR during 2013.

SDG&E's Schedule DA-CRS includes the Power Charge Indifference Adjustment (PCIA) assessed on Nonexempt DA customers, which reflects the Commission's allocation of DWR's revenue requirements arising from DWR's power contracts and related obligations to SDG&E. Nonexempt DA customers' share of these costs is assigned based on a "Vintage Year."⁵ During 2013, SDG&E would allocate, to Nonexempt DA customers, their fair share of credits received

⁵ Based upon the date the customer gave notice to SDG&E that they were departing bundled utility service and commencing DA service.

by SDG&E from DWR under Schedule DA-CRS. SDG&E would be acting in a manner consistent with the methodology cited by AReM in its Response and being used by SCE for similar purposes. In implementing this methodology, SDG&E would use the “total portfolio method”⁶ previously used to allocate SDG&E’s share of DWR’s revenue requirement to Nonexempt DA customers. This will result in an offset to the above-market costs associated with SDG&E’s total portfolio of resources allocated to these customers and a PCIA rate lower than they would have otherwise paid in the absence of the offset.

4. Discussion

As this Agreement is similar to a settlement, we treat our review of it as well as its implementation, as clarified in the Reply, in the same fashion as we would a settlement.

4.1. Standard of Review

We review this Agreement and its implementation, as clarified by the Reply, pursuant to Rule 12.1(d) of the Commission’s Rules of Practice and Procedure, which provides that, prior to approval, the Commission must find a settlement “reasonable in light of the whole record, consistent with the law, and in the public interest.” We find the Agreement and its implementation, as

⁶ Under this method, the forecast cost of the utility’s portfolio of resources, including utility retained generation, is compared to the cost of the “market portfolio.” The cost of the market portfolio is equal to the forecasted gigawatt-hours (GWh) provided by the utility’s portfolio multiplied by the market price referent (MPR). The cost of the utility’s resources in excess of the market portfolio are considered “above-market” and recorded as ongoing competition transition charge (CTC). Other CTC-eligible costs, such as eligible qualified facilities contract restructuring costs, are added to the above-market costs to develop the total ongoing CTC revenue requirement. Finally, a portion of the ongoing CTC revenue requirement is allocated to bundled and DA customers based on the ratio of bundled and DA load to total load.

clarified by the Reply, meet the Rule 12.1(d) criteria, and discuss each of the three criteria below.

4.1.1. The Agreement and its Implementation, as Clarified by the Reply, are Reasonable in Light of the Whole Record

Initially, we note the circumstances of the Agreement, particularly that the concerns of the one party that commented on it, AReM, have been resolved. No other parties commented on the Agreement or the Reply. The Agreement and its implementation, as clarified by the Reply, were reached after careful analysis of the issues by each party involved. The Agreement does not change DWR's authorized 2013 revenue requirement determination pursuant to D.12-11-040. The Agreement and its implementation, as clarified by the Reply, result in a reasonable method for allocation of the negative revenue requirement, similar to that used by PG&E and SCE.

The Agreement and its implementation, as clarified by the Reply, are also consistent with Commission decisions on settlements, which express the strong public policy favoring settlement of disputes if they are fair and reasonable in light of the whole record.⁷ This policy supports many worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk that litigation will produce unacceptable results.⁸ Thus, we conclude the Agreement and its implementation, as clarified by the Reply, are reasonable.

⁷ See D.05-03-022 at 9.

⁸ See D.05-03-022 at 9.

4.1.2. The Agreement and its Implementation, as Clarified by the Reply, are Consistent with the Law

The terms of the Agreement and its implementation, as clarified by the Reply, comply with all applicable statutes. These include, e.g., Pub. Util. Code § 451, which in part require that utility rates must be just and reasonable, and Pub. Util. Code § 454, which in part prevent a change in public utility rates unless the Commission finds such an increase justified. As the Agreement does not change the 2013 revenue requirement authorized in D.12-11-040, which we have already found reasonable, adoption of the Agreement does not change our determination of the reasonableness of these rates. Further, nothing in the Agreement and its implementation, as clarified by the Reply, contravene statute or prior Commission decisions.

4.1.3. The Agreement and its Implementation, as Clarified by the Reply, are in the Public Interest

The Agreement and its implementation, as clarified by the Reply are in the public interest and in the interest of parties involved. The agreed-upon allocation methodology and its implementation pursuant to the Agreement, as clarified by the Reply, resolves SDG&E's allocation of the negative revenue requirement.

Approval of the Agreement and its implementation, as clarified by the Reply, avoids the cost of further litigation, and reduces the use of valuable resources of the Commission and the parties. The parties to the Agreement comprise all but one of the active parties regarding this issue. The issues raised by the only other active party have been resolved. Thus, the Agreement and its implementation, as clarified by the Reply, commands the unanimous sponsorship of the affected parties who fairly represent the interests affected by

the Agreement and its implementation, as clarified by the Reply. We find that the evidentiary record, as well as D.12-11-040, contain sufficient information for us to determine the reasonableness of the Agreement and its implementation, and for us to discharge any future regulatory obligations with respect to this matter. For all these reasons, we approve the Agreement and its implementation, as clarified by the Reply.

4.2. Procedural Requirements

Within 30 days of the date of this decision, SDG&E shall implement the Agreement, as clarified by the Reply, through submission of a Tier 1 Advice Letter proposing revision of all affected tariff sheets.

5. Rehearing and Judicial Review

This decision construes, applies, implements, and interprets the provisions of Assembly Bill 1X (Chapter 4 of the Statutes of 2001-2002 First Extraordinary Session), and relates to the implementation of DWR's revenue requirement and the establishment and implementation of the Power Charges necessary to recover that revenue requirement. Therefore, pursuant to Pub. Util. Code § 1731(c), any application for rehearing of this decision is due within 10 days after the date of issuance of this decision. The procedures contained in Pub. Util. Code § 1768 apply to the judicial review of such a Commission decision.

6. Waiver of 30-Day Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2) and Rule 14.6(c)(2), the otherwise applicable 30-day period for public review and comment is waived.

7. Assignment of Proceeding

Michel Peter Florio is the assigned Commissioner and Seaneen M. Wilson is the assigned ALJ in this proceeding.

Findings of Fact

1. In D.12-11-040, the Commission authorized the 2013 DWR revenue requirement determination.
2. The Agreement does not change DWR's authorized 2013 revenue requirement determination (D.12-11-040).
3. On October 16, 2012, SDG&E filed a Motion in which it requested the Commission approve an Agreement between SDG&E and DWR regarding implementation of the procedures applicable to the return of the net negative Power Charge revenue requirements as provided under the terms of the Agreement.
4. On October 31, 2012, AReM responded to SDG&E's motion. AReM is concerned that, given the language of the Agreement, the negative revenue requirement will be allocated to bundled customers only, and may not be allocated to DA customers as well.
5. On November 6, 2012, SDG&E and AReM filed their joint Reply regarding SDG&E's October 16, 2012 Motion. On that same date, the assigned ALJ issued an e-mail ruling, allowing parties to file responses to this Reply by November 28, 2012. No responses were filed.
6. In their Joint Reply, SDG&E and AReM agree that the record should reflect that, subject to the clarifications provided in their Reply, all matters raised by AReM in its Response, have been addressed to AReM's satisfaction and that SDG&E's motion should be granted subject to the clarifications in their Reply.

7. As this Agreement is similar to a settlement, we treat our review of it, as clarified by the Reply, in the same fashion as we would a settlement.

8. The agreed-upon allocation methodology and its implementation pursuant to the Agreement, as clarified by the Reply, resolves SDG&E's allocation of the negative revenue requirement.

9. The parties to the Agreement comprise all but one of the active parties regarding this issue. The issues raised by the only other active party have been resolved.

10. The parties involved in the current issue are fairly reflective of the affected interests.

11. Pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure, the Commission must find a settlement "reasonable in light of the whole record, consistent with the law, and in the public interest."

12. The Agreement and its implementation, as clarified by the Reply, meet the Rule 12.1(d) criteria.

13. Pub. Util. Code § 451 requires, in part, that utility rates must be just and reasonable.

14. As the Agreement does not change the 2013 revenue requirement authorized in D.12-11-040, which we have already found reasonable, adoption of the Agreement does not change our determination of the reasonableness of these rates.

15. Nothing in the Agreement, as clarified by the Reply, contravenes statute or prior Commission decisions.

16. AReM is the only party that commented on the Agreement. No party commented on the Reply.

17. AReM's concerns regarding the Agreement have been resolved.

18. The Agreement results in a reasonable method for allocation of the negative revenue requirement, similar to that used by PG&E and SCE.

19. The Agreement, as clarified by the Reply, is consistent with Commission decisions on settlements.

20. Approval of the Agreement, as clarified by the Reply, avoids the cost of further litigation, and reduces the use of valuable resources of the Commission and the parties.

21. The evidentiary record as well as D.12-11-040 contains sufficient information for us to determine the reasonableness of the Agreement, as clarified by the Reply, and for us to discharge any future regulatory obligations with respect to this matter.

Conclusions of Law

1. We should grant SDG&E's Motion, which consists of: 1) adoption of the Agreement between SDG&E and DWR (see Attachment A), as clarified by the Reply (see Attachment B); and 2) authority for SDG&E to implement those procedures set out in the Agreement, as clarified by the Reply.

2. Within 30 days of the date of this decision, SDG&E should implement the Agreement.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company's *Motion for the Receipt of Additional Evidence and the Granting of Special Relief*, dated October 16, 2012, as clarified by the *Joint Reply of San Diego Gas & Electric Company and Alliance for Retail Energy Markets*, dated November 6, 2012, is approved. More specifically: 1) the *Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power*

Charge Revenue Requirements (contained in Attachment A), as clarified by the *Joint Reply of San Diego Gas & Electric Company and Alliance for Retail Energy Markets* (contained in Attachment B) is adopted; and 2) San Diego Gas & Electric Company is granted authority to implement those procedures set out in the *Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power Charge Revenue Requirements*, as clarified by the *Joint Reply of San Diego Gas & Electric Company and Alliance for Retail Energy Markets*.

2. Within 30 days of the date of this decision, San Diego Gas & Electric Company must implement (via a Tier One advice letter, requesting revision to all affected tariff sheets) the *Agreement Regarding Procedures Applicable to the Return of Net Negative DWR Power Charge Revenue Requirements*, and its implementation, as clarified by the *Joint Reply of San Diego Gas & Electric Company and Alliance for Retail Energy Markets*, as authorized in Ordering Paragraph 1.

3. Rulemaking 11-03-006 remains open.

This order is effective today.

Dated _____, at San Francisco, California.

Attachment A
Agreement Regarding Procedures Applicable to the
Return of Net Negative DWR Power Charge
Revenue Requirements

ATTACHMENT

Docket No. R.11-03-006

**Proposed Exhibit No. SDG&E-1
Exhibit of Counsel on Motion
October 16, 2012**

**Agreement Regarding Procedures Applicable to the Return of Net
Negative DWR Power Charge Revenue Requirements**

**Docket No. R.11-03-006
Exhibit No. SDG&E-1
Exhibit of Counsel on Motion
October 16, 2012**

**Agreement Regarding Procedures Applicable to the Return of Net
Negative DWR Power Charge Revenue Requirements**

Effective Date: The procedures set forth below are intended to apply to the return of "Net Negative DWR Power Charge Revenue Requirements", as defined below, to the bundled-service customers of San Diego Gas & Electric Company ("SDG&E"), effective January 1, 2013.

Nature of Agreement: This Agreement reflects the agreements in principle between the California Department of Water Resources ("DWR") and SDG&E as of October 15, 2012, addressing the procedures to be applied when the orders of the Public Utilities Commission of the State of California ("Commission") result in "Net Negative DWR Power Charge Revenue Requirements", as defined below. For the purposes of this Agreement, "Net Negative DWR Power Charge Revenue Requirements" means the resulting annual revenue requirement allocated to SDG&E where the DWR returns and credits to SDG&E customers ("Customer Return Credit") an annual amount greater than the annual Power Charge allocated to SDG&E, resulting in a net negative revenue requirement to SDG&E's customers. All capitalized terms used but not defined in this Agreement shall have the meanings provided in the 2010 Servicing Order (described below).

Net Negative DWR Power Charge Revenue Requirement Procedure for SDG&E While Administering DWR's Contracts: In 2013, SDG&E will continue to administer those DWR contracts allocated to it pursuant to the prior orders of the Commission and will remit to DWR on a daily basis all collected DWR revenues associated with these contracts, including the DWR Power Charge, consistent with the approved amended and restated Servicing Order ("2010 Servicing Order"). SDG&E will continue to record the actual DWR Power Charge remitted to DWR and assist DWR in the proceedings related to the setting of the following year's determination of the DWR annual revenue requirement.

During 2013, on or before the 15th day of each month, commencing on or before January 15, 2013, DWR will send one wire transfer to SDG&E, representing one-twelfth of the annual Customer Return Credit to be returned to SDG&E's Bundled Customers.

In turn, SDG&E will establish the Customer Return Credit Rate by dividing the amount of annual Customer Return Credit by the authorized forecasted bundled service kilowatt-hour ("kWh") sales for the applicable calendar year. The individual Customer Return Credit to be returned to an SDG&E customer will be calculated by multiplying that customer's billed bundled service kWh sales for the billed-month by the Customer Return Credit Rate. SDG&E will include a statement on its customers' bills addressing the "DWR Customer Return Credit" associated with DWR revenue requirement.

To the extent feasible, DWR intends to apply a uniform Customer Return procedure to all three investor-owned utilities if such investor-owned utilities have a Net Negative DWR Power Charge Revenue Requirement and while such investor-owned utilities are administering DWR's contracts.

Net Negative DWR Power Charge Revenue Requirement Procedure for SDG&E When No Longer Administering DWR's Contracts: After 2013, SDG&E will no longer administer DWR contracts. On or before the 15th day of each month, commencing on January 15, 2014, DWR will send one wire transfer to SDG&E, representing one-twelfth of the annual Customer Return Credit DWR allocates and returns to SDG&E's Bundled Customers.

In turn, SDG&E will establish the Customer Return Credit Rate by dividing the amount of annual Customer Return Credit by the authorized forecasted bundled service kWh sales for the applicable calendar year. The individual Customer Return Credit to be returned to a SDG&E's customer will be calculated by multiplying that customer's billed bundled service kWh sales for the billed-month by the Customer Return Credit Rate. SDG&E will include a statement on its customers' bills addressing the "DWR Customer Return Credit" associated with DWR revenue requirement.

Because SDG&E's authorized forecasted bundled-service sales will be at variance from actual and recorded bundled-service sales, SDG&E will track and maintain accounting records of (1) the amounts returned to SDG&E's bundled-service customers for the Customer Return Credit and (2) the amounts received by SDG&E from DWR for Customer Return Credit. Any remaining balance (over or under-collection) recorded by SDG&E in its accounting records will be transferred to the SDG&E Energy Resource Recovery Account balancing account and will be included in SDG&E's commodity rates.

Tariff Changes Required

- SDG&E will seek Commission approval via advice letter to amend its tariff schedule rate tables to revise the DWR Power Charge Rate to include the DWR Customer Return Credit Rate.

- All applicable SDG&E tariffs (which may include, but are not limited to Schedule EECC, Schedule EECC-TBS, Schedule EECC-CPP-E, Schedule EECC-CPP-D, ERRA, and DA-CRS) will also be revised accordingly.

Attachment B
Joint Reply of San Diego Gas & Electric Company
and Alliance for Retail Energy Markets

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



Order Instituting Rulemaking to Consider the Annual
Revenue Requirement Determination of the
California Department of Water Resources and
Related Issues.)
_____)

Rulemaking No. 11-03-006
(Filed March 10, 2011)

**JOINT REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U-902-E)
AND ALLIANCE FOR RETAIL ENERGY MARKETS**

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November 6, 2012

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service territory. Counsel for SDG&E and AReM have conferred and agree that the record should be clarified as to the manner in which direct access customers in SDG&E's service territory will receive their allocable share and benefits of the credits and refunds SDG&E will receive from the Department during 2013. The clarification provided below fully resolves the issues raised by AReM in its *Response*.

Among the components of Schedule DA-CRS is the Power Charge Indifference Adjustment, assessed to Nonexempt Direct Access customers¹ and which reflects the Commission's allocation of the Department's revenue requirements arising from the Department's power contracts and related obligations to SDG&E. Further, under SDG&E's Schedule DA-CRS, Nonexempt Direct Access customers are assigned a "Vintage Year" based upon the date the customer gave notice to SDG&E that they were departing bundled utility service and commencing Direct Access service. Nonexempt Direct Access customers are assigned an allocable share of the Vintage Year costs associated with power charges allocated to and paid by SDG&E pursuant to SDG&E's share of the revenue requirements arising from the Department's power contracts and associated obligations. Similarly, during 2013, SDG&E will allocate to Nonexempt Direct Access customers their fair share of credits and refunds received by SDG&E from the Department under the Schedule DA-CRS Power Charge Indifference Adjustment. In doing so, SDG&E will be acting in a manner consistent with the methodology cited by AReM in its *Response* and being used by Southern California Edison Company for similar purposes. In implementing this methodology, SDG&E will use the "total portfolio method" previously used to allocate SDG&E's share of the Department's revenue requirements to Nonexempt Direct Access customers to allocate 2013 refunds and credits received from the Department. This will result in an offset to the above-market costs associated with SDG&E's total portfolio of resources allocated to these customers and a Power Charge Indifference Adjustment rate lower than they would have otherwise paid in the absence of the offset.

¹ In this context, "Nonexempt Direct Access customers" excludes "Continuous DA Customers", defined in Schedule DA-CRS as those Direct Access customers taking Direct Access service both before and after February 1, 2001. Continuous DA Customers are exempt from bond charges and the Power Charge Indifference Adjustment billed to other Direct Access customers under Schedule DA-CRS. Additionally, Direct Access customers who received Direct Access Service from February 1, 2001, through September 21, 2001, were considered "Continuous DA Customers" effective December 2, 2003.

Counsel for SDG&E and AReM have conferred and agree that the record should reflect that, subject to the clarification provided above, all matters raised by AReM in its *Response* have been addressed to AReM's satisfaction and that SDG&E's prior *Motion* should be granted subject to the clarifications provided in this Joint Reply.

Respectfully submitted,

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(End of Attachment B)